NOTES TO FINANCIAL STATEMENTS

1. Description of the Business and Organization

United Concordia Dental Plans of California, Inc., (the "Company") was incorporated in 1973 in the State of California, and is licensed under the Knox-Keene Health Care Service Plan Act of 1975, as amended (the "Act"). The Company provides prepaid dental programs to subscribers under various contractual agreements, with most contracts renewing on an annual basis. The Company is a wholly owned subsidiary of United Concordia Companies, Inc. ("UCCI").

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, for purposes of the statements of cash flows. For cash and cash equivalents, the carrying amount approximates fair value.

Property and Equipment:

Property and equipment are carried at cost less accumulated depreciation. Maintenance, repairs and minor improvements are expensed as incurred. Depreciation is computed under the straight-line method. Depreciation lives range from three to ten years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in current operations.

Claims Payable:

The liability for claims payable reflects management's estimate. The estimate is based on known amounts of reported claims and an estimate of incurred but not reported claims using past experience, adjusted for current trends. The methods and assumptions used to determine this estimate are continually reviewed and any resulting adjustments are included in current operations. Corresponding administrative costs to process unreported claims are estimated and accrued in accounts payable in the accompanying balance sheets.

Deferred Rent:

The Company recorded the difference between actual cash payments and rent expense under the lease agreement as deferred rent, which was amortized using the straight-line method over the term of the lease agreement.

Premium Revenue:

Subscriber premiums are generally billed in advance of the contractual coverage periods. Subscriber premiums are recorded as premium revenue in the period that the related benefits and services are available to members. The unearned portion of premiums received is reflected on the accompanying balance sheets as unearned premiums.

Capitation and Specialist Claims Expense:

Capitation payments are made to provider dentists based on the number of members that have selected the provider at that time. Members obtain dental care at a co-payment charge at the time services are rendered by their network provider dentist. Capitation and provider guarantees are recorded as expenses in the period that the corresponding premiums are recorded as revenue. Specialist claims are paid upon member referral by the network provider dentist, based upon pre-established contractual rates.

Summary of Significant Accounting Policies, continued:

Specialist claims are estimated and accrued as a liability for claims payable in the period the services are rendered and recorded as expenses in the accompanying statutory financial statements. Provider guarantee supplements are recorded based on contractual agreements.

Taxes:

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company files a consolidated federal income tax return with UCCI's parent, Highmark Inc. ("Highmark"). The consolidated current federal income tax liability is settled between Highmark and its subsidiaries as if each had filed a separate return. Entities incurring losses and credits are allocated federal current tax benefits to the extent used to reduce the current consolidated federal income taxes payable. Federal deferred tax benefits are recognized to the extent management expects future deductible items to be realized on Highmark's future consolidated income tax returns.

State and local tax returns are filed according to the taxable activity of each member of the consolidated group. State current and deferred tax expense or benefits are recognized on a separate company basis. As a prepaid dental health care plan, the Company is subject to the California Corporation Franchise Tax but is not presently subject to state premium tax. The Company is also subject to the City of Los Angeles Business Tax, which is calculated based upon a flat rate, applied to the Company's gross receipts allocated to the City.

Use of Estimates:

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of the financial statements include estimates for claims payable. Actual results could differ from those estimates.

3. Regulatory Compliance

The Company must meet certain requirements under the Act, to ensure that the Company can provide the dental benefits for which it has contracted. The Company is required by the Act to maintain a minimum deposit. Pursuant to these requirements, $50,000 was invested in a certificate of deposit, and is recorded as restricted funds in the accompanying balance sheets, as of the quarter ended December 31, 2003. In addition, the Company is required to maintain minimum tangible net equity as defined by Section 1300.76 of the Act. As of December 31, 2003 the Company's required tangible net equity was approximately $731,277.

The Company is in compliance with the tangible net equity requirement as of December 31, 2003. In April 1996, the Company entered into an undertaking with the Department of Managed Health Care, which restricts the Company from transferring assets to affiliates (the April 1996 Undertaking). As part of the 1996 acquisition of the Company by UCCI, an additional undertaking was entered into which also binds UCCI to the April 1996 Undertaking.

4. Transactions with Affiliates

The Company has a management services agreement with UCCI, whereby the Company could be allocated costs related to marketing, sales activities, data processing, accounting services, claims processing, and services related to utilization review and quality assurance. The calculated amount of these charges under this management services agreement totaled approximately $1,344,089 for the quarter ended December 31, 2003. Of these charges, $676,002 were absorbed by UCCI under this management services agreement for the quarter ended December 31, 2003. In all cases, charges absorbed by UCCI are not reflected in the accompanying statements of revenues and expenses.

For the quarter ended December 31, 2003, the Company was reimbursed approximately $763,236 for various management and administrative services incurred on behalf of affiliates.

UCCI has undertaken to provide sufficient financial support so that the Company will have adequate minimum tangible net equity (Note 3) as required by the Act to meet its obligation to its subscribers under the terms of the Company's policies and contracts.

5. Operating Leases

The Company has several non-cancelable operating leases that are in effect at September 30, 2003 to March 31, 2004. Effective April 1, 2004 the Company entered into a new lease agreement for a period of six years. Rent expense totaled approximately $146,595 for the quarter ended December 31, 2003. Aggregate future rental commitments under non-cancelable operating leases are:

2004	$ 403,508
2005	359,818
2006	370,504
2007	377,911
2008	487,275
2009	400,926
2010	100,967
	$2,500,909

6. Employee Benefit Plans

The employees of the Company are covered under retirement plans sponsored by Highmark. A noncontributory defined benefit pension plan is based upon years of service and employee compensation. A defined contribution savings plan allows participating employees to contribute a percentage of their annual salary subject to IRS limitations. The Company matches a percentage of the employee contributions. Accordingly, the Company expensed approximately $90,596 for the quarter ended December 31, 2003, for its portion of total pension plan and savings plan expense. A postretirement health benefit sponsored by the Highmark plan covers eligible employees of the Company. The Company's portion of postretirement health benefits expense is approximately $35,792 for the quarter ended December 31, 2003.

7. Income Taxes

The Company's provision (benefit) for income taxes is as follows:

	2003
Current:	
Federal	$ 372,495
State	32,549
	405,044
Deferred:	
Federal	-24,733
State	-6,853
	-31,586
Total	$373,458

The significant differences between reported amounts of income tax provision (benefit) and the expected amount of income tax provision (benefit) that would result from applying the domestic federal statutory tax rate to income (loss) before income taxes are: state income taxes, net of the federal effect and certain non-deductible expenses.

Gross deferred tax assets and liabilities as of December 31, 2003 are as follows:

	2003
Gross deferred tax assets	$ 414,096
Less valuation allowance	-
Net deferred tax assets, before deferred tax liability	414,096
Deferred tax liability	-
Deferred tax assets, net	$ 414,096

Tax related balances due from (to) Highmark as of December 31, 2003 is approximately $176,564, and is included in amounts due to affiliates in the accompanying balance sheets.

The temporary differences that give rise to significant portions of the deferred tax assets include claims payable, reserve for uncollectible accounts, depreciation and unearned premiums.